

LANCASTER COUNTY LEASING CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2004

LANCASTER COUNTY LEASING CORPORATION  
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DANA F. COLE & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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LINCOLN, NEBRASKA 68508

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Lancaster County Leasing Corporation  
Lincoln, Nebraska

We have audited the accompanying basic financial statements of the Lancaster County Leasing Corporation, a component unit of Lancaster County, Nebraska, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Lancaster County Leasing Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the activity of Lancaster County Leasing Corporation and do not purport to, and do not, present fairly the financial position of Lancaster County, Nebraska, as of June 30, 2004, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6, the Corporation has recorded their leases with the County as operating leases. Accounting principles generally accepted in the United States of America require that a lease, which transfers ownership at the end of the lease term, be accounted for as a capital lease. The effects of this departure from accounting principles generally accepted in the United States of America on the financial position, results of operations and cash flows have not been determined.

In our opinion, except for any adjustment that may be required in the recording of the lease as noted in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Lancaster County Leasing Corporation, Lincoln, Nebraska as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2004, on our consideration of the Lancaster County Leasing Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Lancaster County Leasing Corporation, Lincoln, Nebraska, has not presented management's discussion and analysis or budgetary comparison information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Dana & Cole + Company, LLP

Lincoln, Nebraska  
October 1, 2004

LANCASTER COUNTY LEASING CORPORATION  
STATEMENT OF NET ASSETS AND  
GOVERNMENTAL FUNDS BALANCE SHEET  
JUNE 30, 2004

	<u>Balance Sheet</u>	<u>Adjustments (Note 10)</u>	<u>Statement of Net Assets</u>
<b>ASSETS</b>			
Cash	717,801		717,801
Investments	5,127,423	21,525	5,148,948
Accrued interest receivable	19,961		19,961
Land		500,000	500,000
Other capital assets, net of accumulated depreciation		3,259,823	3,259,823
Debt issuance costs, net of amortization		<u>101,032</u>	<u>101,032</u>
<b>TOTAL ASSETS</b>	<u>5,865,185</u>	<u>3,882,380</u>	<u>9,747,565</u>
<b>LIABILITIES</b>			
Accrued interest payable		92,604	92,604
Prepaid rental receipts	97,171		97,171
Long-term liabilities			
Due within one year		485,000	485,000
Due after one year		<u>4,355,000</u>	<u>4,355,000</u>
Total liabilities	<u>97,171</u>	<u>4,932,604</u>	<u>5,029,775</u>
<b>FUND BALANCES</b>			
Fund balances			
Unreserved	<u>5,768,014</u>	<u>(5,768,014)</u>	<u>          </u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>5,865,185</u>		
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt		4,503,457	4,503,457
Restricted for debt services		<u>214,333</u>	<u>214,333</u>
<b>TOTAL NET ASSETS</b>		<u>4,717,790</u>	<u>4,717,790</u>

See accompanying notes to financial statements.

LANCASTER COUNTY LEASING CORPORATION  
STATEMENT OF ACTIVITIES AND  
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Fund Balance</u>	<u>Adjustments (Note 11)</u>	<u>Statement of Activities</u>
EXPENDITURES/EXPENSES			
Debt service			
Principal	465,000	(465,000)	
Interest	207,241		207,241
Depreciation		400,702	400,702
Amortization of debt issuance costs and discount on bonds payable		10,104	10,104
Total expenditures/expenses	<u>672,241</u>	<u>(54,194)</u>	<u>618,047</u>
PROGRAM REVENUES			
Charges for services	<u>433,492</u>		<u>433,492</u>
NET PROGRAM EXPENSE			<u>184,555</u>
GENERAL REVENUES			
Investment income	183,001		183,001
Realized gain (loss) on sale of investments	36,858		36,858
Unrealized gain (loss) on sale of investments		21,525	21,525
Total general revenues revenues	<u>219,859</u>	<u>21,525</u>	<u>241,384</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(18,890)	18,890	
CHANGE IN NET ASSETS		56,829	56,829
FUND BALANCE/NET ASSETS			
Beginning of the year	5,786,904	(1,395,086)	4,391,818
Prior period adjustment		269,143	269,143
End of the year	<u>5,768,014</u>	<u>(1,050,224)</u>	<u>4,717,790</u>

See accompanying notes to financial statements.

LANCASTER COUNTY LEASING CORPORATION  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2004

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Interest income	168,944
Rental income	190,895
Interest expense	<u>(215,287)</u>
Net cash provided by operating activities	<u>144,552</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal payments on bonds	<u>(465,000)</u>
Net cash used in capital and related financing activities	<u>(465,000)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from sales of investments	1,509,578
Purchases of investments	<u>(1,700,000)</u>
Net cash used in investing activities	<u>(190,422)</u>
<b>NET DECREASE IN CASH</b>	<b>(510,870)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b><u>1,228,671</u></b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b><u>717,801</u></b>

See accompanying notes to financial statements.

LANCASTER COUNTY LEASING CORPORATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of Lancaster County Leasing Corporation (the Corporation).

Organization

The Corporation is a tax-exempt, nonprofit corporation formed under the laws of the State of Nebraska, specifically Sections 21-1901 to 21-1991, to acquire property and to lease that property to Lancaster County, Nebraska (the County) and to devote any income to the purchase of additional property for lease to the County.

The Corporation is leasing Lancaster Manor to the County under the terms of an operating lease through 2012. The annual lease payments are equal to the debt service requirements of the bonds.

Reporting Entity

The Corporation is a blended component unit of the County and is included in the County's financial statements. Members of the County's Board of Commissioners serve as Directors of the Corporation and, therefore, all financial transactions are effectively controlled by common management.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Corporation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At December 31, 2004, the Corporation had no cash equivalents.

Investments

Investments consist primarily of debt securities, which are carried at fair value. The premium or discount is amortized over the life of the investment.

Fixed Assets

Expenditures for land, building and equipment are capitalized at cost. Expenditures for maintenance and repairs are expensed as incurred. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets ranging from 5 to 39 years.



LANCASTER COUNTY LEASING CORPORATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets

Costs incurred in connection with the issuance of bonds payable and the bond discounts have been deferred and are amortized over the term of the bonds on a straight-line basis.

Income Taxes

The Corporation is a governmental body politic and is, therefore, exempt from federal income taxes.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. CASH AND INVESTMENTS

The following are descriptions of the various cash and investment accounts held by the Corporation:

Bond Funds

The bond resolutions create separate funds within the Corporation which are restricted in use and in the investment of monies. The Bond Fund consists of the Principal and Interest Account. Lease payments received from the County are deposited in the Principal and Interest Account. These monies can be used only to make principal and interest payments on the bonds. Investments of the Principal and Interest Account are required to mature prior to the time the monies are needed for their intended purposes.

Renewal and Replacement Fund

The Renewal and Replacement Fund is used for funds received in excess of those required to be deposited in the Bond Fund. The Renewal and Replacement Fund is used to make necessary purchases and repairs to building and equipment. The maturity of investments cannot exceed five years.

Reserve Fund

The Reserve Fund is used to hold an amount equal to the annual debt service requirements of the bonds. Any excess arising from interest income or other gains is to be transferred to one of the accounts of the Bond Fund. In the event the balance is less than the required amount, the Corporation may assign pledged revenues to this fund. In addition, the County has the authority to levy taxes or raise other revenues to eliminate a deficit. The maturity of investments cannot exceed five years.

LANCASTER COUNTY LEASING CORPORATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 2. CASH AND INVESTMENTS (Continued)

Rebate Fund

The Rebate Fund is used to accumulate any amounts due to the United States Treasury Department under the arbitrage rebate regulations. A study as of September 30, 2003 indicated there were no positive earnings and the accumulated funds were released to pay debt service. Another study is scheduled for September 30, 2008.

As of June 30, 2004, the carrying amount and bank balance of the Corporation's cash was \$717,801, which is held in trust in a Federated Treasury Obligation Money Market Fund that invests in U.S. Government securities. The carrying amount, which approximates fair value, of the Corporation's investments was \$5,148,948. The investments consisted of a U.S. Treasury Note, which is insured and unregistered, and certificate of deposits. These securities are held by the counter party or by its trust department or agent, but not in the Corporation's name.

Investments consist of the following at June 30, 2004:

	<u>Cost</u>	<u>Unrealized Gain/Loss</u>	<u>Fair Value</u>
U.S. Treasury Note	2,016,445	21,525	2,037,970
Certificates of deposit	<u>3,110,978</u>	<u>          </u>	<u>3,110,978</u>
	<u>5,127,423</u>	<u>21,525</u>	<u>5,148,948</u>

NOTE 3. FIXED ASSETS

The changes in general capital assets designated for the operation of the Corporation are as follows:

	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Reclassi- fications (Note 8)</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Land	500,000				500,000
Building and improvements	7,835,912				7,835,912
Equipment	<u>1,007,545</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>1,007,545</u>
	9,343,457				9,343,457
Less accumulated depreciation	<u>(5,452,076)</u>	<u>(400,702)</u>	<u>269,144</u>	<u>          </u>	<u>(5,583,634)</u>
	<u>3,891,381</u>	<u>(400,702)</u>	<u>269,144</u>	<u>          </u>	<u>3,759,823</u>

LANCASTER COUNTY LEASING CORPORATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 4. DEBT ISSUANCE COSTS

Specific costs related to the Corporation's debt offering in October 1998 were capitalized upon issuance of the debt and are being amortized to interest expense using the straight line method over the 15-year term of the debt. The amount expensed for the year ended June 30, 2004 was \$10,104.

NOTE 5. BONDS PAYABLE

Bonds payable as of June 30, 2004 are as follows:

\$7,145,000 Lancaster County Leasing Corporation  
Tax Supported Lease-Rental Refunding Bonds,  
Series 1998, issued October 30, 1998, payable in  
scheduled semiannual installments at each  
January 15 and July 15, commencing July 15,  
1999, with interest ranging from 3.25% to 4.5%  
through July 15, 2012, final payment due July 15,  
2012. 4,840,000

The following represents the change in the bonds payable:

Beginning balance	5,305,000
Payments	<u>(465,000)</u>
Ending balance	<u>4,840,000</u>

The aggregated maturities including principal and interest relating to these bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	485,000	197,485	682,485
2006	505,000	178,495	683,495
2007	530,000	158,220	688,220
2008	545,000	136,820	681,820
2009	570,000	114,303	684,303
2010 - 2013	<u>2,205,000</u>	<u>199,550</u>	<u>2,404,550</u>
	4,840,000	984,873	5,824,873
Less current portion	<u>(485,000)</u>	<u>(197,485)</u>	<u>(682,485)</u>
	<u>4,355,000</u>	<u>787,388</u>	<u>5,142,388</u>

LANCASTER COUNTY LEASING CORPORATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 6. LEASE CONTRACTS

The Corporation has contracted with the County for the lease of the property of Lancaster Manor. The contract requires lease payments in the amount to satisfy the bond and interest requirements. The contracts provide that the Corporation shall retain title to the building and land until the bonds are paid in full. Upon retirement of the bonds, the building and land becomes the property of the County. All contract payments are assigned to Wells Fargo as paying agent of the outstanding bonds and interest. Bonds maturing on or prior to July 15, 2005 are not subject to redemption prior to the stated maturities. The bonds maturing on or after January 15, 2006 are subject to redemption prior to maturing at the option of the Corporation. Rent received from the County was \$433,492 for the year ended June 30, 2004.

The Corporation has recognized the lease with the County as an operating lease. Accounting principles generally accepted in the United States of America requires that a lease, which has a transfer of ownership at the end of the lease term, be recognized as a capital lease. The effect of not recording these leases as capital leases on the financial position, results of operations and cash flows has not been determined.

NOTE 7. RISK MANAGEMENT

The Corporation is included in the County's risk management. The Corporation is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and natural disasters. These risks of loss are covered by various commercial insurance policies (with various deductibles) with the exception of workers' compensation and general liability. The County has established Workers' Compensation Loss and Self-Insurance Funds (internal services funds) to account for and finance a portion of its uninsured risks of loss. The County is self-insured up to \$300,000 per occurrence for workers' compensation risks and up to \$100,000 per occurrence for general liability risks. The self-insurance programs are administered by the County's Worker's Compensation and Risk Manager. Settled claims have not exceeded commercial coverage in any of the last three years. Commercial insurance covers the excess of the self-insured amount to a maximum of \$1,000,000 for employers' liability and statutory limits for workers' compensation and \$5,000,000 for general liability.

The County utilizes the services of an actuary to prepare an analysis of the self-insured workers' compensation and general liability risks. The analysis is used to assist the County with its financial planning, budgeting and management of the self-insurance programs. The programs are funded on a cash basis with annual premiums charged to all governmental fund types, except Lancaster Manor Fund, based on past experience of incurred losses and remitted to the Worker's, Compensation Loss and Self-Insurance Internal Service Funds. As of June 30, 2004, the estimated liability for claims is zero.

LANCASTER COUNTY LEASING CORPORATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 8. PRIOR PERIOD ADJUSTMENT

A material adjustment has been made to the Corporation's fund balance as of June 30, 2004. An adjustment in the amount of \$269,144 was included in the financial statements. This adjustment is a result of reclassifying overstated depreciation in prior years as shown in the reclassifications column in Note 3.

NOTE 9. CHANGE IN ACCOUNTING METHOD

Government Auditing Standards require the Corporation's investments to be reported at fair, or market, value. The investments had been previously reported at cost. Investments were increased by \$21,525 for the year ended June 30, 2004. Investments will continue to be reported at fair value and the differences will be shown in the statement of activities as unrealized gain or loss.

NOTE 10. EXPLANATION OF DIFFERENCES BETWEEN THE BALANCE SHEET AND THE STATEMENT OF NET ASSETS

"Total fund balances" of the Corporation's funds (\$5,768,014) differs from "net assets" of the Corporation's activities (\$4,696,265) reported in the statement of net assets. This difference primarily results from the long-term economic resources focus of the statement of net assets versus the current financial resources focus of the fund balance sheet.

NOTE 11. EXPLANATION OF DIFFERENCES BETWEEN THE FUND BALANCE STATEMENT AND THE STATEMENT OF ACTIVITIES

The "net change in fund balances" for the Corporation's funds (-\$18,890) differs from the "change in net assets" for the Corporation's activities (\$35,304) reported in the statement of activities. The differences arise primarily from the long-term economic resources focus of the statement of activities versus the current financial resources focus of the Corporation's funds.

DANA F. COLE & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Lancaster County Leasing Corporation  
Lincoln, Nebraska

We have audited the financial statements of the Lancaster County Leasing Corporation, as of and for the year ended June 30, 2004, which collectively comprise Lancaster County Leasing Corporation's basic financial statements and have issued our report thereon dated October 1, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lancaster County Leasing Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Lancaster County Leasing Corporation's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Due to the limited number of personnel involved in the accounting function, Lancaster County Leasing Corporation, has limited internal control procedures. The Fund believes the cost involved would greatly outweigh the possible benefits to be derived from developing a more complex internal control system. However, the present system seems to be operating as understood by all parties involved.

A material weakness is a reportable condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lancaster County Leasing Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the governing board, management and federal awarding agencies and pass-through entities, and this report is not intended to be and should not be used by anyone other than these specified parties.

Dana F. Cole + Company, LLP

Lincoln, Nebraska  
October 1, 2004